

## **Statement of Mike Frazier**

### **Chairman of the Southeastern Federal Power Customers, Inc. Operations and Maintenance Committee**

### **Request for Support for the Southeastern Power Administration and U.S. Army Corps of Engineer Hydropower Program**

**April 26, 2017**

Mr. Chairman and Members of the Subcommittee:

On behalf of the Southeastern Federal Power Customers, Inc. (“SeFPC”), I am providing testimony in support of funding for the Southeastern Power Administration (“SEPA”) and the hydropower program in the Southeast administered by the U.S. Army Corps of Engineers (“Corps”). I appear before the Subcommittee to ask for support for funding for no less than \$ 6 million for SEPA’s program direction and no less than \$ 80 million for purchased power and wheeling activities. In addition, we ask for support for \$ 75 million for the Operations and Maintenance (“O&M”) expenditures by the Corps which supports hydropower generation at several multipurpose projects in the Southeast.

As the Chair of the Operations and Maintenance Subcommittee of the SeFPC, I am quite familiar with the funding needs for the Corps hydropower program in the Southeast. In addition, as the Director of Engineering and Power Supply of the Piedmont Municipal Power Agency, I can also attest to the value of the power resources marketed by SEPA. The funding authorized by this Subcommittee facilitates the marketing of the Federal Power resources in the Southeast. More importantly, the funding of SEPA has a multiplier effect for the U.S. Treasury. Authorizing net-zero spending authority for SEPA in the amount of \$ 6 million assists with the annual recovery of more than \$275 million for the U.S. Treasury. In fact, this small agency in Southeast Georgia has brought in over \$1 billion for the U.S. Treasury over the past four years.

In practical terms, the actions of this Subcommittee assist with the collection of these revenues for the Federal Treasury.

The revenues that SEPA collects each year for the U.S. Treasury also provide the funding source for its operations as well. Each year, the President's Budget request contains a suggested level of expenditures for SEPA that are drawn from the revenues that SEPA collects in the rates. Technically, SEPA does not receive an appropriation from Congress for expenditures in an upcoming fiscal year. Rather, Congress authorizes SEPA to use revenues that it collects in the rates charged for power to fund its program direction and purchased power and wheeling expenses as applicable.

The authorization of program direction and purchased power and wheeling spending reflects the fiscal reality that provides the foundation for SEPA. By law, SEPA sets rates that are designed to collect all of the costs of managing the marketing and sale of power from the Corps resources. Every month, the rates collected by SEPA contain monies sufficient to pay for program direction and purchased power and wheeling expenses as applicable. In this arrangement, the U.S. Treasury collects the receipts for the expenditures, in essence keeping the Federal Treasury neutral.

The Senate and House budget committees, along with the Office of Management and Budget ("OMB") and the Congressional Budget Office ("CBO") have recognized the "budget neutrality" of the authorizations for SEPA's spending in determining that there is a neutral "score" for the SEPA program. Indeed, starting with the 2001 Fiscal Year, the receipts associated with purchased power and wheeling activities for all of the Power Marketing Administrations ("PMAs") were reclassified as discretionary. The end result is that the receipts and expenditures of SEPA are netted out in the appropriations process. In other words, Congress,

OMB, and CBO recognized that the spending on purchased power and wheeling was already contained in the rates charged for the power customers. The amounts spent were (and are today) collected in the rates charged.

The scoring for purchased power and wheeling as well as program direction has served the Subcommittee well in deliberations on the use of the budget allocations. To the extent that the authorizations for SEPA have no scoring impact, SEPA can continue to meet its statutory obligation to market the power resources at the lowest possible cost consistent with sound business principles. The only uncertainty associated with this arrangement is whether the power resources will be available.

The hydropower resources in the Southeast are subject to any number of variables which can affect hydropower generation. Drought conditions can reduce hydropower generation, which reduce revenues for the Federal Treasury. Indeed, there is little that SEPA or the Corps can do to address lack of generation due to lack of precipitation. However, there are also instances where reservoirs are full, yet the Corps is unable to generate power because equipment has failed. In these situations, hydropower is not generated because of an outage at a Corps' facility.

In fact, outages can occur for any number of reasons. In some instances, the Corps will take a project off line to perform routine maintenance, or undertake major rehabilitation activity. These are necessary steps to ensure the continued reliable operation of the projects and future generation of hydropower. On a rare occasion, equipment may also fail, necessitating emergency repairs by Corps contractors before hydropower generation can re-start. In each of these circumstances, the Corps requires funding for O&M. In selective situations, the Corps needs capital funding too.

In many respects, this Subcommittee provides the starting point for the continued success and operation of the hydropower program in the Southeast. If Congress provides funding sufficient to meet O&M needs and capital for major rehabilitations, the Corps will continue to generate the hydropower that SEPA sells to consumer owned utilities in the Southeast. Therefore, we ask for the Subcommittee's support for the funding necessary to maintain the Corps hydropower program in the Southeast.

As the Subcommittee considers the funding levels necessary for the Corps hydropower program in the Southeast, we also highlight for the Subcommittee that the investment that the Corps makes in hydropower plant is recovered in the rates charged by SEPA. Notably, the rates charged by SEPA include components for Corps O&M and the capital investment that is commercially operable. In this regard, it is important for the Subcommittee to recognize that all of the investment in the Federal Power Program in the Southeast is recovered in rates charged.

In conclusion we ask for the funding necessary to maintain SEPA's operations and the Corps hydropower program in the Southeast. We thank the Subcommittee for prior support of these important programs as previous investments continue to serve electric consumers well in the Southeast. I am happy to answer any questions that the Subcommittee may have.

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Michael Frazier  
Chairman  
Operations and Maintenance Committee  
Southeastern Federal Power Customers.